



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 11, 2008

OPEC Secretary General Abdalla Salem el-Badri said there was a panic in the oil futures market but added that it needed to calm down because it was not justified. He said the oil futures market had spiraled out of control and a brake needed to be applied to stop speculative factors driving oil prices higher beyond the fundamentals of supply and demand. He also stated that the meeting on June 22 between producers and consumers would involve heads of state. The White House said US President George W. Bush would not attend the meeting. On Tuesday, US

Market Watch

The European Commission said it would propose changes in tax policy later this year to increase energy efficiency and help citizens that are hardest hit by the current situation during a summit next week.

A Commerzbank analyst said the price of oil could peak at \$150-\$170/barrel in the next three months and then retreat by the end of the year. He said oil prices are expected to fall back under \$100/barrel in 2009. However he added that the price of oil would not fall to lower levels in the long term because of rising shipping costs and demand from emerging economies.

Investec fund manager Mark Lacey said oil could enter a short term consolidation phase that could see it traded in a range between \$110 and \$130/barrel. He said the speed of the oil rally has led to some demand destruction in OECD countries. He also said the airline industry announced plans to ground up to 10% of their fleet to cut costs, which would have some implications for world oil demand over the coming months. He said a permanent cutback in airline demand by 10% for example could cut 50-60% of next year's forecast oil demand growth.

Indonesia's Energy Minister Purnomo Yusgiantoro said Indonesia may drop a plan to introduce rationing of subsidized gasoline for motorcycles and public transport because the plan was too difficult and expensive to administer.

Malaysia's Prime Minister Abdullah Ahmad Badawi said the country would not increase its fuel prices further this year. He said the current prices would be maintained even if world oil prices reach \$200/barrel.

Lisbon's main airport has run out of fuel because of a strike by truck drivers, causing flight delays but no cancellations as airlines were filling up their planes by stopping at other airports. Portuguese and Spanish truck drivers went on strike on Monday in protest of high fuel prices. Meanwhile several petrol stations in Lisbon ran out petrol on Wednesday.

A French CGT union official said French power and gas workers are scheduled to go on strike on June 17 over government plans to reform pensions and the 35-hour week.

DOE Stocks

Crude – down 4.6 million barrels

Distillate – up 2.3 million barrels

Gasoline – up 1 million barrels

Refinery runs – down 1.1%, at 88.6%

Energy Secretary Samuel Bodman and the IEA's Nobuo Tanaka said they would attend. Contrary to statements made by OPEC's Secretary General, a Saudi oil official later stated that Saudi Arabia would not invite heads of state to the June 22 meeting. He said the meeting would be a ministerial meeting under the auspices of Saudi Arabia's King Abdullah.

US Energy Secretary Samuel Bodman said the high oil prices were explainable strictly by supply and demand contrary to Saudi Arabia's reasons why oil prices are high.

Kuwait's Oil Minister Mohammad al-Olaim said speculation, tight refining capacities at consuming countries and the weak US dollar were driving fluctuations in oil prices. He said the volatility had nothing to do with market fundamentals. He reiterated his support for Saudi Arabia's call for a meeting between oil producers and consumers. Meanwhile, Nigeria's Oil Minister Odein Ajumogobia also said he welcomed Saudi Arabia's call for a meeting of oil producers and consumers to discuss volatility in world oil prices. Qatar's Oil Minister Abdullah al-Attiyah said the world oil markets were well supplied and added that there was no need for OPEC to increase its production.

The executive director of the IEA, Nobuo Tanaka said the world was facing an oil crisis and added that the IEA stood ready to release emergency stockpiles. He said any major oil refinery accident could cause a supply disruption. Meanwhile, Didier Houssin, a director at the IEA said the high oil prices were no longer acceptable.

The head of the EIA, Guy Caruso said US regulators, including the Commodity Futures Trading Commission, Federal Trade Commission and Justice Department are scheduled to meet on Thursday to discuss regulations on crude markets. He also stated that the crude futures markets need more transparency and may require greater regulation.

Separately, the US Commodities and Futures Trading Commission met with its UK counterpart, the Financial Services Authority this week to discuss the possibility of introducing limits on traders' positions on the ICE futures market. Last month, the CFTC said the FSA and the ICE Futures Europe had agreed to share more information on trading in energy commodity contracts with US delivery points.

Libya's leader Muammar Gaddafi said the US was to blame for the high world oil prices because it was caused by a weak dollar. He also said the US was behind speculation and tension that was supporting the market.

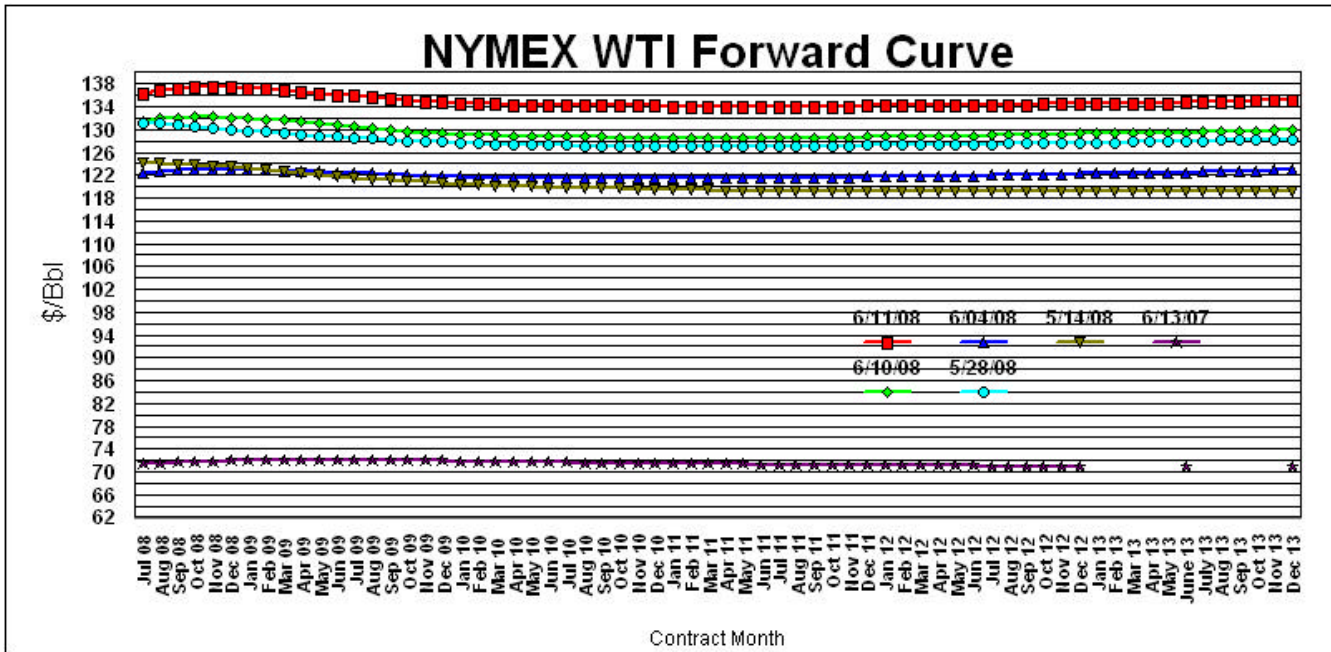
President George W. Bush threatened Iran on Wednesday with more sanctions if it failed to stop enriching uranium and said all options were on the table to halt Iran's nuclear program. President Bush, who met with Germany's Chancellor Angela Merkel, has been urging allies to agree on new punitive measures against Iran. Germany's Chancellor said she could not exclude a further round of sanctions if Iran failed to cooperate and suspend enrichment work. Meanwhile, Iran's President Mahmoud Ahmadinejad said Iran would not trade its dignity with incentives to halt its nuclear program. EU foreign policy chief Javier Solana is due in Iran over the weekend for talks aimed at convincing Iran to suspend its uranium enrichment in exchange for an incentives package offered by world powers. Iran's President also said the Bush administration's term was coming to an end and would not be able to harm Iran. Iran's Foreign Minister Manouchehr Mottaki dismissed threats of any military strikes against it.

May Calendar Averages

CL – 130.34

HO – 377.83

RB – 337.50



Nigeria's Pengassan union said it was optimistic talks to avert a strike at the local unit of Chevron would be productive. Talks resumed on Tuesday and were expected to continue later on Wednesday. The Chevron branch of the Pengassan union had threatened to begin a strike last week to press for the transfer of the expatriate managing director out of Nigeria. The union accused the managing director of violating basic safety standards, having too many expatriate staff and of a lack of respect for Nigerian workers.

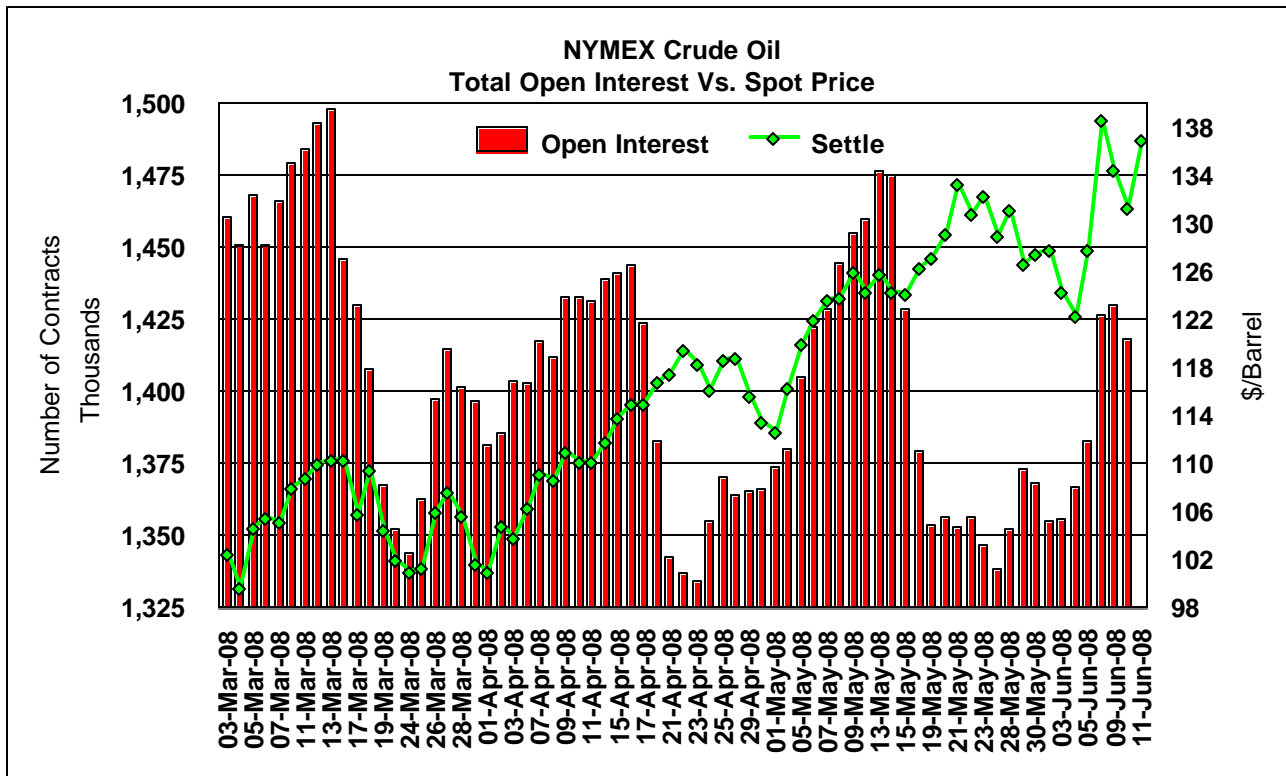
The international affairs director at the National Iranian Oil Co, Hojjatollah Ghanimifard said Iran's oil exports are expected to increase by 300,000 bpd to at least 2.5 million bpd in June and July. Spring refinery maintenance had cut Iran's oil sales during April and May to about 2.2 million bpd and much of the unsold crude was stored on vessels off Iran's shores. The excess barrels, estimated at about 30 million barrels, are expected to be sold during the next two months.

The chairman of BP rejected a prediction by the head of Gazprom that oil prices would rally to \$250/barrel by the end of next year. BP chairman Peter Sutherland said there was no problem with available supplies of fuels in the medium term but added that there was a need for more investment to develop those resources. He also said he did not believe speculation was a major cause of the rally in oil prices in the last five years. He said the main factors were increased demand, a shortage of investment in developing new oil and gas resources and political instability risks in countries such as Iraq, Venezuela and Nigeria. Meanwhile, BP's chief economist Christof Ruehl said financial investment in energy and other commodities has increased sharply. However he added that the connection between investment flows and oil prices was ambiguous. He also stated that OPEC would have to increase its production to reduce record crude prices.

Refinery News

Shell Oil said a 67,000 bpd fluid catalytic cracking unit at its 332,000 bpd Deer Park, Texas refinery was in restart following a brief outage due to a compressor snag. The unit is expected to resume normal operations later on Wednesday.

ExxonMobil said there was no impact on production following a problem with a fluid catalytic cracking unit at its 562,000 bpd Baytown, Texas refinery.



Pasadena Refining Systems Inc shut a fluid catalytic cracking unit at its 100,000 bpd Pasadena, Texas refinery on Wednesday.

Petrobras may become the third largest oil refiner with its plan to build two new refineries. The two refineries would increase its refining capacity by at least 1 million bpd by 2014. It said it may build a refinery in Ceara with a capacity of 300,000 bpd by 2014. The refinery would produce low sulfur gasoline and other fuels that meet US standards. The refinery would complement a plant planned for Sao Luis, which is expected to process as much as 500,000 bpd into low sulfur fuels for export. Petrobras is also building a 200,000 bpd heavy oil refinery and a 150,000 bpd petrochemical refinery.

China National Petroleum Corp said its main fuel pipeline in western China resumed operations on Wednesday after it was shut on Tuesday as authorities drained a quake lake.

According to preliminary customs data, China imported 16.2 million tons or 3.81 million bpd of crude, up 10% on the month and 25% on the year. It was the strongest growth in 10 months and 260,000 bpd below its record import level of 4.07 million bpd in March. China's General Administration of Customs reported that its January-May crude imports increased by 12.7% to 75.97 million tons. It also reported that China's oil product imports in May totaled 4.66 million tons and increased by 17.3% in January-May to 17.34 million tons.

The Petroleum Association of Japan reported that the country's crude oil inventory fell by 1.67 million barrels on the week and by 7.23 million barrels on the year to 98.82 million barrels in the week ending June 7. It also reported that Japan's gasoline stocks built by 940,000 barrels on the week and by 2.48 million barrels to 15.6 million barrels while kerosene stocks built by 350,000 barrels but fell by 3.83 million barrels to 10.88 million barrels. It also reported that Japan's naphtha stocks increased by 580,000 barrels on the week to 12.52 million barrels. Refinery utilization increased by 1.9% to 71% of capacity.

Japan's Oil Information Center reported that Japan's retail gasoline prices increased by 0.5 yen to 172.4 yen or \$1.61/liter or \$60.9/gallon on Monday.

Japan's Tokyo Electric Power Co said purchases of fuel oil, crude and oil coal increased in May. Its fuel oil purchases increased by 37% on the year in May to 580,000 kiloliters while its crude oil purchases increased by 21% to 220,000 kl and coal purchases increased by 67% to 336,000 tons. Meanwhile its fuel oil consumption increased to 615,000 kl while its crude oil consumption increased to 235,000 kl and its coal consumption increased to 174,000 tons.

Mexico's Energy Minister Georgina Kessel said failure to approve an energy reform bill would delay plans to expand the country's refining network by a decade. The reform bill calls for private investment in new refineries. However the Institutional Revolutionary Party has rejected private investment in refining.

Production News

Suncor Energy Inc said it was on track to restart one of two major processing units at its Alberta oil sands facility around mid-June after a month of scheduled maintenance. The oil sands facility has been operating at about 200,000 bpd during the work on the unit. It expects its output to average 275,000-285,000 bpd this year.

Royal Dutch Shell Plc said it has extended a force majeure on Bonny Light oil exports by two months through July following an attack late last month that forced the company shut additional production. The original force majeure was called on April 21 following a militant attack and was expected at the time to be lifted by the end of May.

The IEA reported that Venezuela produced an average of 2.36 million bpd of crude in May, up 1.7% from April's 2.32 million bpd level.

The Norwegian Petroleum Directorate said Norway's average oil production stood at 2.034 million bpd in April while its natural gas liquids production was 278,000 bpd and its condensate production was 77,000 bpd. Preliminary production figures for May 2008 showed an average production of about 2.11 million bpd of oil.

Ecuador's Oil and Mining Ministry reported that the country's average oil production fell by 2% to 499,157 bpd in May from 511,677 bpd last year. Petroecuador's oil production averaged 259,341 bpd in May while private companies' oil production averaged 239,816 bpd.

BP Plc said it would begin early oil production from its Thunder Horse field in the US Gulf of Mexico on June 14. The field is expected to produce a maximum of 250,000 bpd of oil and 200 million cubic feet/day of natural gas. BP Plc reported that world oil production fell by 0.2% or 130,000 bpd in 2007 to 81.53 million bpd and reserves were relatively flat at 1.24 trillion barrels. It also reported that global natural gas production increase by 2.4% to 2.94 trillion cubic meters in 2007 while consumption increased by 3.1% to 2.92 tcm. Proven gas reserves stood at 177.4 tcm at the end of last year, up 0.6%.

The North Sea Oseberg system is scheduled to load 6.6 million barrels in July, up from 6 million barrels in June.

Ukraine's State Statistics Committee reported that its crude production fell by 5.1% to 1.299 million tons in January-May 2008 compared with the same period in 2007.

India's civil aviation minister said India has asked oil companies to consider a cut in base jet fuel prices to bring immediate relief to aviation firms suffering losses due to the high prices.

Russia's Gazprom said gas prices are expected to continue rising. Gazprom's chief executive Alexei Miller said on Tuesday that he expected the price of crude oil to almost double to \$250/barrel, taking gas prices with it.

OPEC's news agency reported that OPEC's basket of crudes fell to \$128.65/barrel on Tuesday from \$130.87/barel on Monday.

Kuwait and Iran on Wednesday joined Saudi Arabia in cutting the price of their heavy crude exports to the deepest discounts in at least nine years. Kuwait cut the official selling price of its crude by 40 cents to a discount of \$4.20/barrel to the Oman/Dubai average. Iran also deepened Iran's Heavy discount by 47 cents to a \$3.92 discount to the Oman/Dubai average. This followed Saudi Arabia's cut to its Arab Medium crude price by 35 cents to a \$3.70/barrel discount to the Oman/Dubai average.

Market Commentary:

A larger than expected draw in the crude oil inventory number and the euro's rise against the dollar was behind the \$5.00+ move in prices today. The July crude oil contract achieved a new high for this week, however it was unable to achieve a new record high. Although prices moved higher, the shape of the forward curve remains similar, except for the very front of the curve. The July contract continued to bow to deferred contracts even though the market was up significantly. Perhaps this front month weakness can be explained by higher loadings expected out of the North Sea for the month of July or revisions by the IEA, lowering their demand figure for the year. It may be that the market is perceived to be well supplied at a time when demand is slowing due to higher prices, or that the fundamentals of this market do not add up to \$135.00+ crude oil. Despite its run up today, the July contract settled below the top line on the ascending channel. Based upon a weekly chart, this week has been the first week since the end of March that prices have not traded outside the previous week's range. Slow stochastics on this chart are trending in over bought territory, with RSI's already turning to the downside. We would look for a weekly settlement above the \$137.63 trendline in order for prices to continue higher, but with stochastics and RSI's set where they are we are not confident that this will happen.

The July08/August 08 spread tested the -.64 cent support level but was unable to break through it. With our expectations for lower prices, we would look for another test at this level and for further weakness on this spread, looking for a test of -.95



cents. Despite the fact that gasoline stocks built and demand fell, gasoline rallied today, settling up .1465 cents on the day. Technically, this market appears to have further upside potential with slow stochastics and RSI's trending higher in neutral territory. Based upon a daily chart, there is a pennant formation that has formed and the July contract settled just below the \$3.4750 pennant top. We would look to buy any break above this line, with an objective of \$3.6180 and we would sell any failure to penetrate it. Heating oil moved higher today, as demand for this product remains unseasonably strong. For tomorrow, we would look for a correction to the downside, as week longs are shaken out of the market. As mentioned in yesterday's wire, we do not see this product losing its momentum until we can get a settlement below \$3.5450. Total open interest for crude oil is 1,418,749 down 11,760, July08 238,141 down 44,270, August08 221,006 up 23,982, December 08 187,557 up 713. Total open interest for heating oil is 214,434 up 499 July08, 52,113 down 5,548, August08, 34,676 up 2,837. Total open interest for gasoline, 248,486 down 1,959, July 66,380 down 7,476, August08, 41,994 up 3,382.

July Crude Support	July Crude Resistance
127.80, 124.25, 122.54, 120.65, 119.36, 109.60, 98.60, 85.40	141.00, 147.54, 150.00
Heating oil support	Heating oil resistance
3.8500, 3.7885, 3.6800, 3.5450, 3.5100, 3.3500, 3.1680, 3.0980	4.0338, 4.0475, 4.0640
Gasoline support	Gasoline resistance
3.3075, 3.1760, 3.0920, 3.0730, 3.0400, 3.0250, 2.9255	3.6345, 3.755, 3.8655